DD/S REGISTRY

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DD/S 69-2136

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MEMORANDUM FOR: Dr. [redacted] Vice Chairman
Task Force on Employee Savings Plan

SUBJECT : Selection of Investment Media

1. Attached is our long awaited "go-ahead" to proceed with INA in the actual identification of mutual funds appropriate for our proposed CIA Savings Plan. Note in his transmittal to the Executive Director-Comptroller, the Deputy Director for Support states that when we do present the plan to employees it "should be complete unto itself." By way of further amplification, he explained to me that we would not make any presentation to employees or send out any questionnaires until we had a specific approved program to offer for employee acceptance or rejection. I know you agree with me and the DD/S that this is the best course of action, and I hope the other Task Force members will accept the decision.

2. I will be absent from duty for the next five weeks, and I hope you will plunge right in and get things rolling. I see no reason why the plan cannot be ready to go by September.

3. Before I back out of active involvement, I want to give you the benefit of my opinions as to investment media that appear to be appropriate for our purposes. Admittedly, my opinions are based on extensive studies of comparative performance of most of the major funds in each of the generally recognized categories of investment objectives. In most cases, they cover at least a ten year span on a year-by-year basis in both rising markets and falling markets. My sources include Wiesenberger, Livingston, Forbes, and Fundscope.

4. My first conclusion is that we should offer only two investment objectives. These are "Growth with Businessman's Risk" and "Income and Growth." I do not think we should fool with the "Balanced Funds", the real "Go-Go Funds", or the so-called "Hedge Funds."

5. If we use load funds (and I do believe they offer the greatest choice of outstanding performers) I think we should restrict ourselves to a group of funds under common management. This will ensure us the lowest sales commission and, more importantly, the greatest flexibility for employees in adjusting their investment objectives from time to time and particularly at time of retirement. We should, of course, only deal with a Family Group having conversion privileges and withdrawal plans.

6. In line with the above, I find only four fund families that seem to be worthy of serious consideration based on high consistency over the past ten years in achieving their stated investment objectives:

a. Crosby Corporation
Fidelity Trend and Puritan Funds

b. Colonial Distributors, Inc.
Colonial Equities and Colonial Funds

c. Arnold Bernhard & Co., Inc.
Value Line Special Situations and Value Line Income Funds

d. Putnam Fund Distributors, Inc.
Putnam Growth & Putnam Income Funds

7. The Crosby Corporation Funds are on the INA preferred list and offer the theoretical advantage of prior experience in setting up the TVA plan. I see certain advantages, however, in using different and smaller funds so I do not think we should necessarily favor Crosby.

8. In the event we decide to offer no-load funds, I can only recommend the following for consistency in growth:

a. American Investors (exceptional performance)
b. deVegh
c. Drexel Equity
d. Scudder Special

With the exception of Scudder, I know very little about the management of these funds. For "Income and Growth" I can only recommend:

a. Northeast
b. Counselors
c. Pine Street

9. Since you will be conferring with INA, I assume the seven fund families on their preferred listing will be among the first considered. The Crosby and Colonial Funds mentioned above are two of the seven. The rest fail to impress me at all, or do not seem appropriate for our purposes. Specific observations are:

a. The growth fund of the Anchor Group has grown less than the average of all funds during the past ten years - not very inspiring!

b. The Delaware Funds have only done modestly well - certainly not so well as the Crosby and Colonial Funds.

c. The Vance Sanders & Co. funds have performed so poorly I can't see why INA handles them. For example, the Massachusetts Investors Trust Growth Fund has consistently been below average in both appreciation and income. The famed MIT Fund is above average in income for the ten year span, but is at about the bottom 25% in appreciation.

d. The Wellington and Dreyfus funds unfortunately do not offer both growth and income funds - and therefore do not fit well into our program.

10. The only other suggestion I can give you is to urge that you try to bring into the purchase agreement with the fund organization the right of employees participating in the Savings Plan to buy directly additional fund shares at the prevailing sales commission rate.

11. Good Luck!

Dictated but not signed.
Copies distributed on 8 May 69 per EDE request.

[redacted]
Chairman
Task Force on Employee Pension Trust

Att.

cc: ea member of Task Force

SA-DD/S/EDE:bak(7 May 69)

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